

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Financial Reporting Entity**

The City of Scottsdale, Arizona (City) was incorporated in 1951. The current City Charter was adopted in 1961, which established the Council/Manager form of government. The City provides basic government services to its citizens including roads, water, sewer, solid waste management, public transit, parks and recreation facilities, police and fire.

The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

The financial reporting entity presented in these financial statements consists of the City of Scottsdale, Arizona (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### **Individual Component Units - Blended**

The City of Scottsdale Municipal Property Corporation (MPC), a nonprofit corporation, was created by the City in 1967 solely for the purpose of constructing, acquiring and equipping buildings, structures, or improvements on land owned by the City. The MPC is governed by a Board of Directors appointed by the City Council. For financial reporting purposes, transactions of the MPC are included as a governmental and proprietary fund type as if it were part of the City's operations.

The Scottsdale Preserve Authority (SPA), a nonprofit corporation, was created by the City in 1997 for the purpose of financing land acquisitions for the McDowell Sonoran Preserve. The City Council must approve the election of the SPA's Board of Directors. For financial reporting purposes, transactions of the SPA are included as a governmental fund type as if it were part of the City's operations.

Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts were formed by petition to the City Council in 1992, 1994, 1997, and 1998 respectively. The Districts' purposes are to acquire and improve public infrastructure in specified land areas. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the Districts. The City Council serves as the Board of Directors. The City has no liability for the Districts' debt. For financial reporting purposes, transactions of the Districts are combined together and included as a governmental fund type as if they were part of the City's operations.

Separate financial statements of the MPC, SPA and Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, and Via Linda Road Community Facilities Districts may be obtained at the City's Financial Services Department, Accounting and Budget Division, 7447 East Indian School Road, Suite 210, Scottsdale, Arizona 85251.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims, and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *General Obligation Bond Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, long-term obligation debt principal, interest, and related costs.

The *General CIP Construction Capital Projects Fund* accounts for the resources used to acquire, construct and improve major capital facilities,

other than those financed by proprietary funds. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements, regarding the use of the resources, are fully satisfied.

The *Preservation Privilege Tax Capital Projects Fund* accounts for the resources used to acquire, and improve land within the McDowell Sonoran Preserve. Resources are provided by the proceeds from the sale of bonds and the .15% 2004-approved Preserve Privilege Tax. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements, regarding the use of the resources, are fully satisfied.

The government reports the following major proprietary funds:

The *Water and Sewer Utility, Airport and Solid Waste Funds* account for the operating revenues and expenses of the City's water and sewer utility systems, airport and sanitation services (solid waste, brush removal, container maintenance, etc.), respectively.

Additionally, the government reports the following fund types:

The *Internal Service Funds* account for fleet management and self-insurance services provided to other departments or units of the City, on a cost-reimbursement basis.

The *Agency Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds are used to record the Family Self-Sufficiency activity and Retainage Escrow activity.

The *Private-Purpose Trust Funds* are used to account for assets held in a trustee capacity for scholarships and other purposes as designated by the donors or by legal restrictions. Both the principal and earnings of these expendable trust funds can be expended for the trusts' intended purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their

business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are payments-in-lieu of taxes, indirect costs and franchise fees and other charges between the City's Water and Sewer Utility Fund, Airport Fund, and Solid Waste Fund, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer, airport, and solid waste fees, vehicle purchase amounts and risk management charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first; then unrestricted resources as they are needed.

## **D. Assets, Liabilities, and Net Assets or Equity**

### **1. Deposits and Investments**

Cash equivalents for purposes of the statements of cash flows are investments (including restricted assets) in the State of Arizona Local Government Investment Pool, mutual funds, demand deposits, repurchase agreements, and U.S. Treasury bills and

notes with maturities of three months or less at acquisition date.

GASB Statement No. 31 provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earning investment contracts at amortized cost. The City has elected to report all investments at fair value. The City's policy is to invest in certificates of deposit, repurchase agreements, direct U.S. Treasury debt, securities guaranteed by the United States Government or any of its agencies, and the State of Arizona Local Government Investment Pool (LGIP). The LGIP is overseen by the State of Arizona. The fair value of each share in the LGIP is \$1.

### **2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are classified as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts, property tax and court receivables are shown net of an allowance for uncollectibles. All receivables in excess of one year comprise the allowance for uncollectibles at June 30, 2005.

The City's property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent on November 1 and May 1, respectively. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Delinquent amounts bear interest at the rate of 16 percent. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions of properties which have delinquent real estate taxes are held in February following the May 1 date upon which the second half taxes become delinquent.

Property taxes levied for current operation and maintenance expenses on residential property are limited to 1.0 percent of the primary full cash value of such property. In addition, taxes levied for current operation and maintenance expenses on all types of property are limited to a maximum increase of 2.0

percent over the prior year's levy, adjusted for new construction and annexations. Property taxes levied to pay principal and interest on bonded indebtedness are not limited.

### 3. Inventories

Inventories of the governmental funds are recorded under the consumption method. Inventories are recorded as expenditures when consumed rather than when purchased. Inventories are valued at year-end based on cost, with cost determined using an average cost method.

### 4. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The revenue bond renewal and replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

### 5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at estimated fair market value on the date of receipt.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation and amortization of all assets are recorded and calculated using the straight-line method over the following estimated useful lives:

Water System .....	10 to 75 Years
Sewer System .....	25 to 50 Years
Buildings and Improvements .....	25 Years
Land Improvements .....	25 Years
Machinery and Equipment .....	20 Years
Motor Vehicles .....	3 to 10 Years
Furniture, Fixtures, and Office Equipment .....	5 to 10 Years

The excess purchase price over fair market value of assets acquired in the Water and Sewer Utility Enterprise Fund is amortized on the straight-line method over 20 to 25 years.

When capital assets are disposed of, the cost and accumulated depreciation or amortization is removed from the accounts, and any resultant gain or loss is recognized in the government-wide and proprietary fund financial statements.

### 6. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to a maximum number of hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount unused at year end are forfeited. The City's policy is to pay employees for unused accumulated vacation hours at termination or retirement. Sick leave time can be accumulated without limit. The City's policy, however, is that only those employees hired full-time before July 1, 1982 are paid for unused sick leave at death or retirement. Employees who retire on or after July 1, 1996, and who have accumulated 300 or more hours of sick leave, may elect to apply the value of the sick leave toward their City medical plan premiums.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the current amount of compensated absences is recorded as a current liability at June 30 in the governmental and proprietary funds. The current compensated absences amount in the governmental funds is combined with accrued payroll and other payroll related amounts in the accrued payroll and benefits line item. The City calculates this current amount based on vacation taken and an actuarial valuation dated January 1, 2005, for medical leave conversion. There is no long-term liability for compensated absences in the governmental funds.

## **7. Long-term Obligations**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

## **8. Fund Equity**

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **9. Net Assets**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

*Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

*Restricted Net Assets* – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* – The category represents net assets of the City, not restricted for any project or other purpose.

## **II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### **A. Explanation of certain difference between the governmental fund balance sheet and the government-wide statement of nets assets.**

The City's Governmental funds fund balances, \$264,756, differs from net assets of governmental activities, \$1,948,344, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.



**Reconciliation of Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets**  
(in thousands of dollars)

	Total Governmental Funds	Long-Term Assets/ Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations	Statement of Net Assets Totals
<b>ASSETS</b>					
Cash and Investments	\$ 248,536	\$ -	\$ 32,419	\$ -	\$ 280,955
Cash with Fiscal Agent	67,760	-	-	-	67,760
Receivables (net of allowance for uncollectibles)					
Interest	1,107	-	133	-	1,240
Privilege Tax	12,905	-	-	-	12,905
Hotel/Motel Tax	399	-	-	-	399
Property Tax	1,224	-	-	-	1,224
State Shared Sales Tax	1,656	-	-	-	1,656
Franchise Fee	2,118	-	-	-	2,118
Court Receivable	6,199	-	-	-	6,199
Highway User Tax	1,495	-	-	-	1,495
Auto Lieu Tax	994	-	-	-	994
Intergovernmental	3,391	19,665	-	-	23,056
Grants	384	-	-	-	384
Special Assessments	6,265	-	-	-	6,265
Miscellaneous	5,610	-	804	-	6,414
Due from Other Funds/Internal Balances	18,251	-	-	(18,251)	-
Supplies Inventory	153	-	269	-	422
Capital Assets (net of accumulated depreciation)	-	2,213,182	24,643	-	2,237,825
Deferred charges and other assets	-	2,315	-	-	2,315
Total Assets	\$ 378,447	\$ 2,235,162	\$ 58,268	\$ (18,251)	\$ 2,653,626
<b>LIABILITIES</b>					
Accounts Payable	\$ 21,155	\$ -	\$ 829	\$ -	\$ 21,984
Accrued Payroll and Benefits	10,675	-	179	(2,066)	8,788
Accrued Compensated Absences - Current	-	-	60	2,066	2,126
Accrued Compensated Absences - Due Within One Year	-	5,642	153	-	5,795
Accrued Compensated Absences - Due in More Than One Year	-	7,862	243	-	8,105
Claims Payable	-	-	15,565	-	15,565
Due to Other Funds	18,251	-	-	(18,251)	-
Matured Bond Interest Payable	12,931	-	-	-	12,931
Matured Bonds Payable	29,880	-	-	-	29,880
Deferred Revenue					
Property Tax	386	(386)	-	-	-
Special Assessments	6,265	(6,265)	-	-	-
Court	6,199	(6,199)	-	-	-
Tax Audit	2,333	(2,333)	-	-	-
Intergovernmental	1,205	-	-	-	1,205
Other	278	-	-	-	278
Due to Other Governments	57	-	-	-	57
Guaranty and Other Deposits	3,212	-	-	-	3,212
Other	864	-	-	-	864
Bonds, Loans, Capital Leases, and Other Payables	-	594,492	-	-	594,492
Total Liabilities	113,691	592,813	17,029	(18,251)	705,282
Fund Balances/Net Assets					
Total Fund Balances/Net Assets	264,756	1,642,349	41,239	-	1,948,344
Total Liabilities and Fund Balances/Net Assets	\$ 378,447	\$ 2,235,162	\$ 58,268	\$ (18,251)	\$ 2,653,626

- (1) When capital assets (land, buildings, equipment, etc) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 3,168,193
Accumulated depreciation	(955,011)
	<u>\$ 2,213,182</u>

Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purpose of the statement of net assets.

Bond issuance costs @ 7/1/04	\$ 1,625
Bond issuance cost for FY 2005	878
Amortization of bond issuance costs	(188)
	<u>\$ 2,315</u>

Long-term receivables applicable to the City's governmental activities are not due and receivable in the current period and accordingly are not reported as fund receivables in the governmental funds. All receivables, both current and long-term, are reported in the statement of net assets.

\$ 19,665

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets. Also, during the year the City refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent (\$77,584) to be placed in escrow for payment of the old debt (\$73,570) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts was \$4,014 and will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the refunded debt. Balances at June 30, 2005 were:

Contract payables	\$ (14,324)
Bonds payable	(579,993)
Deferred amount on refunding	11,693
Deferred issuance premium	(11,868)
Accrued vacation and sick leave pay	(13,504)
	<u>\$ (607,996)</u>

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance. Deferred revenue for the long-term special assessment receivables shown on the governmental fund statements is not deferred on the statement of net assets. Certain tax and other revenues deferred under modified accrual for governmental fund statements, is recognized as revenue under accrual accounting for the government-wide statements.

Deferred special assessment revenue	\$ 6,265
Deferred court revenue	6,199
Deferred tax revenue	2,719
	<u>\$ 15,183</u>

- (2) Internal Service Funds are used by management to charge the costs of certain activities, such as fleet management and self insurance, to individual funds. The assets and liabilities of certain Internal Service Funds are included in governmental activities in the statement of net assets.

\$ 41,239

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The net change in fund balances for governmental funds, \$(52,770), differs from the change in net assets for the governmental activities, \$73,074, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities** (in thousands of dollars)

	Total Governmental Funds	Long-Term Revenue/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-Term Debt Transactions (6)	Statement of of Activities
<b>REVENUES:</b>						
Taxes - Local:						
Property	\$ 48,249	\$ (237)	\$ -	\$ 404	\$ -	\$ 48,416
Transaction Privilege	152,209	105	-	-	-	152,314
Transient Occupancy	7,939	-	-	-	-	7,939
Light and Power Franchise	5,596	-	-	-	-	5,596
Cable TV Franchise	2,859	-	-	-	-	2,859
Salt River Project In-Lieu	201	-	-	-	-	201
Other Taxes	1,136	-	-	-	-	1,136
Taxes - Intergovernmental:						
State-Shared Sales	18,779	-	-	-	-	18,779
State Revenue Sharing	18,634	-	-	-	-	18,634
Auto Lieu Tax	8,678	-	-	-	-	8,678
Highway User Tax	14,738	-	-	-	-	14,738
Local Transportation Assistance Fund	1,119	-	-	-	-	1,119
Business and Liquor Licenses	1,633	-	-	-	-	1,633
Charges for Current Services:						
Building and Related Permits	18,188	-	-	-	-	18,188
Recreation Fees	3,274	-	-	-	-	3,274
Westworld Equestrian Facility Fees	1,838	-	-	-	-	1,838
Fines and Forfeitures:						
Court Fines	5,358	2,230	-	-	-	7,588
Parking	187	221	-	-	-	408
Photo Radar	2,557	54	-	-	-	2,611
Court Enhancement	907	-	-	-	-	907
Library	640	-	-	-	-	640
Special Assessments	2,029	(1,667)	-	-	-	362
Property Rental	3,617	-	-	-	-	3,617
Interest Earnings	6,053	-	-	712	-	6,765
Intergovernmental:						
Federal Grants	8,600	-	-	-	-	8,600
State Grants	948	-	-	-	-	948
Miscellaneous	2,223	19,665	-	-	-	21,888
Developer Contributions	4,708	-	-	-	-	4,708
Streetlight and Services Districts	998	-	-	-	-	998
Contributions and Donations	917	-	-	-	-	917
Reimbursements from Outside Sources	461	-	-	-	-	461
Indirect Costs	8,635	-	-	-	-	8,635
Other	9,079	(4,000)	(4,216)	-	-	863
Total	362,987	16,371	(4,216)	1,116	-	376,258

(continued)



**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes  
in Fund Balances and the Government-wide Statement of Activities** (in thousands of dollars)

	Total Governmental Funds	Long-Term Revenue/ Expenses (3)	Capital Related Items (4)	Internal Service Funds (5)	Long-Term Debt Transactions (6)	Statement of of Activities
<b>EXPENDITURES/EXPENSES</b>						
Current:						
General Government	\$ 21,793	\$ 132	\$ 8,472	\$ 546	\$ -	\$ 30,943
Police	59,874	(266)	1,926	1,542	-	63,076
Financial Services	7,631	124	457	103	-	8,315
Transportation	8,760	(27)	76,819	283	-	85,835
Community Services	49,941	412	6,753	413	-	57,519
Information Systems	7,674	89	134	44	-	7,941
Fire	21,320	34	7,159	107	-	28,620
Municipal Services	11,813	168	3,792	747	-	16,520
Citizen and Neighborhood Resources	2,831	15	624	26	-	3,496
Human Resources	3,261	21	34	17	-	3,333
Economic Vitality	6,506	13	3	4	1,500	8,026
Planning and Development	12,111	73	218	120	-	12,522
Streetlight and Services Districts	1,094	-	-	-	-	1,094
Debt Service:						
Principal	33,173	-	-	-	(33,173)	-
Interest and Fiscal Charges	31,948	-	-	-	518	32,466
Bond Issuance Costs	878	-	-	-	(878)	-
Capital Improvements	213,585	-	(213,585)	-	-	-
Total Expenditures/Expenses	494,193	788	(107,194)	3,952	(32,033)	359,706
<b>OTHER FINANCING USES/CHANGES IN NET ASSETS</b>						
Net Transfers (to) From Other Funds	8,499	-	(1,762)	2,830	-	9,567
Capital Contributions	-	-	47,538	258	-	47,796
Sales of Capital Assets	-	-	(882)	41	-	(841)
Refunding Bonds Issued	74,630	-	-	-	(74,630)	-
Long-term Capital-Related Debt Issued	68,355	-	-	-	(68,355)	-
Premium on Bonds Issued	4,536	-	-	-	(4,536)	-
Payment to Bond Refunding Escrow Agent	(77,584)	-	-	-	77,584	-
Total	78,436	-	44,894	3,129	(69,937)	56,522
Net Change for the Year	\$ (52,770)	\$ 15,583	\$ 147,872	\$ 293	\$ (37,904)	\$ 73,074

**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes  
in Fund Balances and the Government-wide Statement of Activities** (in thousands of dollars)

**Reconciling Items Description:**

- (3) Because some property taxes will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	\$	(237)
Court revenue		2,505
Tax audit revenue		105
Special Assessment revenue		(1,667)
Intergovernmental revenue		19,665
Note Receivable revenue		(4,000)
	\$	<u>16,371</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual for long-term compensated absences	\$	<u>(788)</u>
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- (4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.

Capital expenditures	\$	185,103
Depreciation Expenses		(83,887)
Loss on disposal of capital assets		(882)
Difference	\$	<u>100,334</u>

Donations of capital assets are not shown on the governmental fund statements, but are included in the assets of the City. On the statement of activities, these donations are shown as capital contributions.

Capital Contributions	\$	<u>47,538</u>
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- (5) Internal Service funds are used by management to charge the costs of certain activities, such as insurance and motor pool, to the individual funds. The adjustments for internal service funds close those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. Capital assets contributed by the governmental funds (\$1,762) are treated as capital contribution revenue in the Internal Service fund statements and capital outlay expenditures in the governmental funds statements. For government-wide purposes, the capital contribution is reclassified as a transfer in in the Internal Service Fund column and a transfer out in the Capital Related Items column.

Change in Net Assets	\$	<u>293</u>
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**Reconciliation of Governmental Statement of Revenues, Expenditures, and Changes  
in Fund Balances and the Government-wide Statement of Activities** (in thousands of dollars)

- (6) Bond issuance costs are reported as an expenditure in governmental funds in the year of bond issuance and thus, have the effect of reducing fund balance because current financial resources have been used. For the government-wide statements; however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Bond issuance costs for FY 2005	\$ 878
Amortization of bond issuance costs	(188)
Difference	<u>\$ 690</u>

Repayment of bond principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The City's bonded debt was reduced in two ways; principal payments were made to bond holders and resources were sent to the bond paying agent for the advance refunding of outstanding bonds.

Transferred to the paying agent:	
For bond principal	\$ 77,584
Principal payments made	33,173
	<u>\$ 110,757</u>

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued and accreted interest was calculated for bonds and notes payable, and additional interest expense was recognized on the amortization of bond discount and premiums which are expended within the fund statements.

Amortization of deferred charges on refundings	\$ (1,474)
Interest accretion and amortization	(265)
Amortization of bond premium and discounts	1,409
	<u>\$ (330)</u>

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Proceeds were received from:

Certificates of Participation	\$ (7,650)
Refunding General Obligation Bonds	(74,630)
Revenue Bonds	(60,705)
Premium on Bonds	(4,536)
	<u>\$ (147,521)</u>

Long-term contracts initiated during the current year are not reported in governmental funds and thus do not contribute to the change in fund balance. In the government-wide statements, however, entering into a contract payable increases long-term liabilities in the statement of net assets and incurs an expense.

	(1,500)
	<u>\$ (1,500)</u>

### III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### A. Budget And Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2004/05. The 2004/05 budget appropriation is established and reflected in the financial statements as follows:

The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds (Highway User Fuel Tax, Preserve Privilege Tax, and Transportation Privilege Tax), Debt Service Funds (except for the Community Facilities Districts Debt Service Funds), and Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented.

The Community Development Block Grant, Home, Grants, Section 8, and Special Programs Special Revenue Funds, Community Facilities Districts Funds, Capital Projects Funds, Internal Service Funds, and Trust and Agency Funds have non-appropriated budgets. Accordingly, no comparison of budget to actual is presented in the financial statements for these funds. Budgets for the Community Development Block Grant, Grants, and Section 8 Funds are established pursuant to the terms of the related grant awards. Budgets for the Community Facilities Districts are established in

accordance with Arizona Revised Statutes, which do not require their inclusion in the City budget or adoption by the City Council. Budgets for Capital Projects Funds are established for individual projects and unexpended funds are re-appropriated each year until the project is completed and capitalized. Budgets for Internal Service Funds are established in order to help departments control operational costs. Budgets for Trust and Agency Funds are established in accordance with the trust/agency agreements.

On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments.

In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During 2004/05, there were no supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year.

Upon the recommendation of the City Manager, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another.

Management control of budgets is further maintained at a line item level within the department.

All expenditure appropriations that have not been expended lapse at year-end. Beginning July 1, 1998, the City discontinued the use of encumbrance accounting. As such, fund balance amounts are not reserved for purchase orders, contracts or other commitments.

## **B. Excess of Expenditures over Appropriations**

The Special Assessments Debt Service Fund exceeded its Debt Service Expenditures appropriation by \$23,000. This over expenditure was funded by available fund balance.

The Scottsdale Preserve Authority Debt Service Fund exceeded its Debt Service Expenditures appropriation by \$171,000. This over expenditure was funded by available fund balance.

The Water and Sewer Utility Enterprise Fund exceeded its expense appropriation for Water operations by \$1,008,000 and Sewer operations by \$3,495,000. This over expenditure was funded by available net assets.

The Airport Enterprise Fund exceeded its expense appropriation by \$721,000. This over expenditure was funded by available net assets.

The Solid Waste Enterprise Fund exceeded its expense appropriation by \$233,000. This over expenditure was funded by available net assets.

## **C. Deficit Fund Equity**

The Section 8 Housing Fund had a deficit fund balance of \$76,000 caused by certain grant reimbursements due which may not be available in the upcoming period. Since these reimbursements are not assured, no revenue was accrued in the current fiscal year. These reimbursements due will be recognized as revenue when actually received.

The Preserve Privilege Tax Capital Projects Fund had a deficit fund balance of \$18,368,000 caused by the purchase of land prior to the issuance of debt. The deficit fund balance will be funded through the sale of debt as stipulated in the City Council approved debt reimbursement agreement.

**D. Fund Balance/Net Assets Reservations and Designations**

Only restrictions imposed by external sources are shown as restricted net assets on the government-wide financial statements. Reservations or designations of fund balances are shown in aggregate on the governmental fund financial statements, but not on the proprietary fund financial statements. The City does, however, reserve or designate portions of net assets in other funds to demonstrate the government's intended use of those net assets. Designations are created by administrative policy. The following are the reservations and designations of fund balance/net assets included in the unreserved fund balance/net assets at June 30, 2005:

**Fund Balance Reservations and Designations (in thousands of dollars)**

<b>General Fund</b>	Major	Nonmajor
Designated for Economic Stabilization Reserve	\$ 24,859	
Designated for Economic Investment	5,000	
Total Designated	<u>\$ 29,859</u>	
<b>Debt Service</b>		
Reserved for Debt Service	<u>\$ 5,602</u>	<u>\$ 5,011</u>

**Restricted Net Asset and Unrestricted Net Asset Designations**

<b>Water and Sewer</b>	
Restricted for Repair and Replacement	\$ 17,592
Restricted for Acquisition and Construction	5,880
Total Restricted	<u>\$ 23,472</u>

The amounts presented below detail the City's planned use of the following Unrestricted Net Asset amounts:

<b>Water and Sewer</b>	
Designated for Operating Reserve	<u>\$ 9,840</u>
<b>Solid Waste</b>	
Designated for Operating Reserve	<u>\$ 3,765</u>
<b>Airport</b>	
Designated for Operating Reserve	<u>\$ 511</u>
<b>Self-Insurance</b>	
Designated for General Liability Claims	\$ 3,660
Designated for Benefits	1,892
	<u>\$ 5,552</u>
<b>Fleet Management</b>	
Designated for Capital Equipment Replacement	<u>\$ 9,359</u>

#### IV. DETAILED NOTES ON ALL FUNDS

##### A. Cash and Investments

The City maintains a cash and investment pool for use by all funds except the Municipal Property Corporation and Community Facilities Districts Funds, which have investments held separately by a trustee.

##### Deposits

At June 30, 2005, the carrying amount of the City's deposits was \$130,386,057, and the bank balance was \$128,827,354. The \$1,558,703 difference represents outstanding checks and other reconciling items.

##### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, the City's deposits were covered by federal depository insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus had no deposits that were exposed to custodial credit risk.

##### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of less than three years.

##### Credit Risk

City Charter, Ordinance, and Trust Agreements authorize the City to invest in obligations of the U.S. Treasury, U.S. Government agencies, Certificates of Deposit, bankers' acceptances, commercial paper (A-1, P-1), repurchase agreements, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

The City's investment in the bonds of U.S. agencies was rated AAA by Standard & Poor's and Fitch Ratings, and Aaa by Moody's Investors Service.

##### Investments

The City's investments at June 30, 2005, are summarized below.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 2</u>	<u>2 - 3</u>
U.S. Treasuries	\$ 108,857	\$ 19,962	\$ 79,079	\$ 9,816
U.S. Agencies	288,694	123,377 *	160,330 **	4,987 ***
Local Government Investment Pool	3,708	3,708	-	-
Guaranteed Investment Contracts	475	475	-	-
<b>Total Investments</b>	<b>\$ 401,734</b>	<b>\$ 147,522</b>	<b>\$239,409</b>	<b>\$ 14,803</b>

\*\$108,547 of these bonds are callable July 12, 2005 to December 2, 2005

\*\*\$110,889 of these bonds are callable July 4, 2005 to November 17, 2005

\*\*\*These bonds are callable July 19, 2005

Total City cash and investments at fair value are as follows (in thousands of dollars):

Carrying Amount of City Deposits	\$ 130,386
Investments	<u>401,734</u>
<b>Total Cash and Investments</b>	<b><u>\$ 532,120</u></b>



Total City cash and investments are reported as follows (in thousands of dollars):

Primary Government	
Cash and Investments	\$ 391,802
Cash with Fiscal Agent	105,245
Restricted Cash	30,228
Handicap Scholarship Private Purpose Trust Fund	4
Scottsdale Memorial Hospital Redevelopment	
Private Purpose Trust Fund	19
Family Self-Sufficiency Agency Fund	101
Retainage Escrow Agency Fund	4,721
Total Cash and Investments	<u>\$ 532,120</u>

Investment income comprises the following for the year ended June 30, 2005 (in thousands of dollars):

Net Interest and Dividends	\$ 12,440
Net Decrease in the Fair Value of Investments	<u>(1,387)</u>
Total Net Investment Income	<u>\$ 11,053</u>

The net decrease in the fair value of investments during fiscal year 2004-2005 was \$1,386,909. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at June 30, 2005, was \$4,713,601.

In the previous year, the City reported a decrease in fair value of \$7,864,309 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants and others in May 2003. The case is presently pending in federal court in Ohio. No reliable assessment of the litigation outcome is available; however, the City has received \$900,101 plus interest of \$2,643 as a partial recovery.

## B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

(in thousands of dollars)

### Governmental and Governmental Activities Internal Service Funds:

	General Fund	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Nonmajor and Other Funds	Total Governmental Funds
<b>Receivables</b>					
Property Taxes and Penalties:					
Property	\$ 431	\$ 631	\$ -	\$ 162	\$ 1,224
Court	17,477	-	-	-	17,477
Subtotal Property Taxes and Penalties	17,908	631	-	162	18,701
Other local taxes:					
Privilege	8,678	-	-	4,227	12,905
Hotel/Motel	399	-	-	-	399
State Shared Sales Tax	1,656	-	-	-	1,656
Franchise Fee	2,118	-	-	-	2,118
Auto Lieu	994	-	-	-	994
Highway User	-	-	-	1,495	1,495
Subtotal Other Local Taxes	13,845	-	-	5,722	19,567
Intergovernmental/Grants	-	-	-	3,775	3,775
Interest and Other:					
Interest	360	-	362	518	1,240
Special Assessments	-	-	-	6,265	6,265
Miscellaneous	4,988	-	8	1,418	6,414
Subtotal Interest and Other	5,348	-	370	8,201	13,919
Gross Receivable	37,101	631	370	17,860	55,962
Less: Allowance for Uncollectibles	(11,278)	-	-	-	(11,278)
Net Total Receivables	\$ 25,823	\$ 631	\$ 370	\$ 17,860	\$ 44,684

### Enterprise Funds:

	Water and Sewer Utility	Airport	Solid Waste	Total Enterprise Fund
<b>Receivables</b>				
Charges for services	\$ 11,610	\$ -	\$ 2,386	\$ 13,996
Intergovernmental	44	754	-	798
Interest	644	4	25	673
Miscellaneous	630	230	47	907
Gross Receivable	12,928	988	2,458	16,374
Net Total Receivables	\$ 12,928	\$ 988	\$ 2,458	\$ 16,374

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue and unearned revenue reported in the Governmental funds were as follows:

(in thousands of dollars)	Unavailable	Unearned
Property Tax	\$ 386	\$ -
Special Assessments	6,265	-
Court	6,199	-
Tax Audit	2,333	-
Intergovernmental	-	1,205
Other		
Community Services	-	278
	<u>\$ 15,183</u>	<u>\$ 1,483</u>

### C. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows (in thousands of dollars):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 413,520	\$ 106,880	\$ (5,812)	\$ 514,588
Construction In Progress	66,165	186,699	(126,413)	126,451
Total Capital Assets, Not Being Depreciated:	<u>479,685</u>	<u>293,579</u>	<u>(132,225)</u>	<u>641,039</u>
<b>Capital Assets, Being Depreciated:</b>				
Buildings and Land Improvements	260,709	10,420	(557)	270,572
Streets and Storm Drains	2,150,431	53,046	-	2,203,477
Vehicles	46,233	4,437	(713)	49,957
Maintenance by Fleet	3,660	-	(9)	3,651
Machinery and Equipment	51,506	7,476	(2,560)	56,422
Total Capital Assets, Being Depreciated:	<u>2,512,539</u>	<u>75,379</u>	<u>(3,839)</u>	<u>2,584,079</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Land Improvements	124,958	9,891	(462)	134,387
Streets and Storm Drains	716,442	69,236	-	785,678
Vehicles	24,322	4,864	(675)	28,511
Maintenance by Fleet	2,121	356	(9)	2,468
Machinery and Equipment	33,699	4,862	(2,312)	36,249
Total Accumulated Depreciation:	<u>901,542</u>	<u>89,209</u>	<u>(3,458)</u>	<u>987,293</u>
Total Capital Assets, Being Depreciated, Net:	<u>1,610,997</u>	<u>(13,830)</u>	<u>(381)</u>	<u>1,596,786</u>
Governmental Activities Capital Assets, Net:	<u>\$ 2,090,682</u>	<u>\$ 279,749</u>	<u>\$ (132,606)</u>	<u>\$ 2,237,825</u>

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 24,162	\$ -	\$ (97)	\$ 24,065
Water Rights	64,688	-	-	64,688
Construction In Progress	52,208	104,351	(5,557)	151,002
Total Capital Assets, Not Being Depreciated:	141,058	104,351	(5,654)	239,755
<b>Capital Assets, Being Depreciated:</b>				
Water System	541,457	11,601	(1,262)	551,796
Sewer System	320,388	7,404	-	327,792
Buildings and Land Improvements	16,506	689	(1,621)	15,574
Machinery and Equipment	5,943	865	(135)	6,673
Furniture, Fixtures and Office Equipment	666		(45)	621
Total Capital Assets, Being Depreciated:	884,960	20,559	(3,063)	902,456
<b>Less Accumulated Depreciation for:</b>				
Water System	135,045	16,291	(747)	150,589
Sewer System	61,651	8,696	-	70,347
Buildings and Land Improvements	5,749	828	(1,149)	5,428
Machinery and Equipment	2,555	279	(133)	2,701
Furniture, Fixtures and Office Equipment	488	49	(33)	504
Total Accumulated Depreciation:	205,488	26,143	(2,062)	229,569
Total Capital Assets, Being Depreciated, Net	679,472	(5,584)	(1,001)	672,887
Business-Type Activities Capital Assets, Net	\$ 820,530	\$ 98,767	\$ (6,655)	\$ 912,642

During fiscal year 2004/05, the Water and Sewer Utility Enterprise Fund capitalized net interest costs of \$2,254,986. Total interest expense in this fund before capitalization was \$8,665,891.

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands of dollars):

Governmental Activities	
General Government	\$ 5,420
Police	1,454
Financial Services	191
Transportation	66,622
Community Services	3,673
Information Services	3,165
Fire	299
Municipal Services	2,961
Citizen and Neighborhoods Resources	7
Human Resources	34
Economic Vitality	3
Planning and Development	58
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	5,322
Total Depreciation Expense - Government Activities	\$ 89,209

<b>Business-Type Activities</b>		
Water and Sewer System	\$	25,223
Airport		719
Solid Waste		201
Total Depreciation Expense - Business-Type Activities	\$	26,143

#### **Construction Commitments**

The City has active construction projects as of June 30, 2005. At year-end the government's commitments with contractors for specific projects are as follows (in thousands of dollars):

<b>Construction Commitments</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Streets	\$ 72,053	\$ 7,962
Traffic	23,137	2,859
Improvement District	11,867	-
Fire	20,313	775
Police	4,691	3,087
Drain/Flood Control	9,722	1,192
Community	52,091	7,116
Parks/Recreation	25,850	22,014
Municipal Facilities	7,916	1,052
Technology	14,874	4,252
Libraries	1,571	522
Airport	2,408	477
Transit	7,482	2,320
Water System	207,844	61,646
Sewer System	107,477	9,616
	<u>\$ 569,296</u>	<u>\$ 124,890</u>

The improvement district portion of the commitment is financed by improvement district bonds. The traffic commitments are being financed by the .2% transportation sales tax, which is reported in the special revenue fund financial statements. All water and sewer system improvement projects are being financed through the use of water or sewer development fees and water or sewer rates.

## **D. Interfund Balances and Interfund Transfers**

### **Due to and Due From Other Funds**

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2005, is as follows:

<b>Receivable Fund</b> <b>(in thousands of dollars)</b>	<b>Amount</b>	<b>Payable Fund</b> <b>(in thousands of dollars)</b>	<b>Amount</b>
General	\$ 189	Nonmajor Governmental Funds	\$ 189
Nonmajor Governmental Fund	18,062	Preserve Privilege Tax Capital Project Fund	18,062
<b>Total</b>	<b>\$ 18,251</b>	<b>Total</b>	<b>\$ 18,251</b>

The Preserve Privilege Tax Capital Projects Fund had a deficit cash balance of \$18,062,000 caused by the purchase of land prior to the issuance of debt. The deficit cash balance will be funded through the sale of debt as stipulated in the City Council approved debt reimbursement agreement.

### **Interfund Transfers**

Transfers are used to fund capital projects and debt service, reallocate special revenue funds to operating centers or other operations and for indirect administrative cost allocations (including in-lieu property tax and franchise fees) charges to Enterprise Funds. During the year \$39.9 million was transferred from the General Fund to the General CIP Construction Capital Project Fund to fund pay-as-you-go capital projects.

#### **Net transfers (in thousands of dollar):**

<b>Transfers Out</b> <b>From:</b>		<b>Transfers In</b> <b>To:</b>	
<b>Major Governmental Funds</b>		<b>Major Governmental Funds</b>	
General	\$ 53,248	Capital Projects	
		General CIP Construction	\$ 39,888
		Preserve Privilege Tax	2,204
		<b>Major Enterprise Funds</b>	
		Airport	114
		<b>Nonmajor Governmental Funds</b>	7,981
		<b>Internal Service Funds</b>	3,061
Capital Projects		<b>Nonmajor Governmental funds</b>	60
General CIP Construction	60		
<b>Total Major Governmental Funds</b>	<b>53,308</b>	<b>Total Major Governmental Funds</b>	<b>53,308</b>

(continued)



<b>Transfers Out</b>		<b>Transfers In</b>	
<b>From:</b>		<b>To:</b>	
<b>Major Enterprise Funds</b>		<b>Major Governmental Funds</b>	
Water and Sewer	\$ 8,639	General Fund	\$ 7,666
		Capital Projects	
		General CIP Construction	840
		<b>Internal Service</b>	133
Airport	292	<b>Major Governmental Funds</b>	
		General Fund	127
		Capital Projects	
		General CIP Construction	162
		<b>Internal Service</b>	3
Solid Waste	750	<b>Major Governmental Funds</b>	
		General Fund	395
		Capital Projects	
		General CIP Construction	169
		<b>Internal Service</b>	186
Total Major Enterprise Funds	<u>9,681</u>	Total Major Enterprise Funds	<u>9,681</u>
<b>Nonmajor Governmental Funds</b>	79,976	<b>Major Governmental Funds</b>	
		General Fund	59
		Debt Service	
		General Obligation Bond	12,825
		Capital Projects	
		General CIP Construction	26,934
		Preserve Privilege Tax	2,582
		<b>Nonmajor Governmental funds</b>	37,556
		<b>Internal Service</b>	20
Total Nonmajor Governmental Funds	<u>79,976</u>	Total Nonmajor Governmental Funds	<u>79,976</u>
<b>Internal Service</b>	2,350	<b>Major Governmental Funds</b>	
		General Fund	7
		Capital Projects	
		General CIP Construction	2,328
		<b>Internal Service</b>	15
Total Internal Service Funds	<u>2,350</u>	Total Internal Service Funds	<u>2,350</u>
<b>Total</b>	<u>\$ 145,315</u>	<b>Total</b>	<u>\$ 145,315</u>

### **E. Operating Leases**

The City has entered into rental agreements of retail and parking facilities. Rental payments on these facilities during the 2004-2005 fiscal year were \$3,933,269. Payments are contingent upon sales tax revenues received on the properties; thus, future payments cannot be determined.

## **F. Bonds, Loans, and Other Payables**

The following are brief descriptions of bonds outstanding at June 30, 2005. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2005.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

### **General Obligation Bonds**

General obligation (GO) bonds are issued, after approval by City of Scottsdale voters at an authorized bond election, to finance the construction of water and sewer systems, artificial lighting, parks and open spaces, recreational facilities, and general purpose improvements. At June 30, 2005, the City had \$282,200,000 of unissued various purpose GO bonds, which were authorized in September 2000. The City had no unissued Preservation GO bonds from the September 1999 authorization. In May 2004 voters authorized \$500,000,000 of additional Preservation GO bonds, as well as an additional .15% sales tax increase to be used to finance Preserve land acquisitions. GO bonds are backed by the full faith and credit of the City, and are repaid through the City's levying of property (ad valorem) taxes. However, the Preservation GO bonds are repaid through the two-tenths of one percent City sales tax approved by voters in September 1996 to be used specifically to finance land acquisitions for the McDowell Sonoran Preserve. Additionally, a portion of the City's GO bonds are recorded in the Water Enterprise Fund as described below, and are repaid through revenues of that fund unless such revenues are insufficient.

### **HURF Revenue Bonds**

Highway User Revenue Fee (HURF) bonds are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the Special Revenue Fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

### **Municipal Property Corporation Bonds**

The Municipal Property Corporation (MPC) is a nonprofit corporation created by the City in 1967 to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is specifically prohibited by law. Most of these bonds are recorded as governmental activities long-term debt. The 1995 MPC Transfer

Station bonds, however, are recorded in and paid out of revenues of the Solid Waste Enterprise Fund. The 2001 MPC Scottswater bonds are recorded in and paid out of the revenues of the Water Enterprise Fund. The 2004 MPC bonds are recorded in and paid out of the revenues of the Water and Sewer Enterprise Funds.

### **Scottsdale Preserve Authority Bonds**

The Scottsdale Preserve Authority (SPA) is a nonprofit corporation created by the City in 1997 to finance land acquisitions for the McDowell Sonoran Preserve. The SPA issues its own bonds, which are repaid through the two tenths of one percent City sales tax approved by voters in September 1996 to be used specifically for this purpose. In May 2004 voters approved an additional .15% sales tax increase. SPA bonds are recorded as governmental activities long-term debt and are paid out of the SPA Debt Service Fund.

### **Water and Sewer Revenue Bonds**

Water and sewer revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing and equipping of water and sewer facilities and related systems. The water and sewer revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water and sewer utility system, and are repaid via user charges or fees for service. Property taxes cannot be used to pay the debt service on these bonds.

Water and sewer revenue bond covenants require that the City accumulate sufficient reserves to cover the eventual replacement of the water and sewer system. The City has continued to meet this reserve requirement. At June 30, 2005, the funds reserved for this purpose were \$17,591,766.

### **Special Assessment Bonds**

Special assessment bonds are issued by the City on behalf of improvement districts created by property owners for a specific purpose, such as to finance local street, water or sewer improvements, or to acquire an existing water or sewer operation. Property owners in the designated districts agree to be assessed for the principal and interest costs of repaying the bonds. As trustee for improvement districts, the City is responsible for collecting the assessments levied against the owners of property within the improvement districts and for disbursing these amounts to retire the bonds issued to finance the improvements. The receivables, revenues, and debt service expenses related to these bonds are recorded in the Special Assessments Debt Service Fund. At June 30, 2005, special assessments receivable, together with amounts paid in advance and interest to be received over the life of the assessment period, were adequate for the scheduled maturities of the bonds payable and the related interest.

These bonds are secured by a lien on the property and improvements of all parcels within each district. In the event of default by the property owner, the City may enforce auction sale to satisfy the debt service requirements of the improvement bonds. The City is contingently liable on special assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds.

The City Council's adopted policy is that special assessment improvement debt is permitted only when the ratio of the full cash value of the property (prior to improvements being installed) when compared to debt is a minimum of 3 to 1 prior to issuance of debt, and 5 to 1 or higher after construction of improvements. In addition, cumulative improvement district debt is not permitted to exceed 5 percent of the City's secondary assessed valuation.

At June 30, 2005, there were 2 separate series of special assessment improvement bonds outstanding, each series issued as serial bonds to be repaid over 10 years.

### **Certificates of Participation**

Certificates of Participation are issued to finance acquisition and improvements of real property that is leased to the City. The City's obligation to make lease payments are subject to, and dependent upon, annual appropriations made by the City Council. In the event any such appropriation is not made, the lease will terminate and the lessor will have legal right to take possession of the property. The City's obligation to make lease payments does not constitute a debt or liability of the City within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the City is pledged to make payments of principal or interest due with respect to the Certificates of Participation. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

### **Community Facilities Districts General Obligation Bonds**

Community Facilities District General Obligation Bonds are issued by community facilities districts (CFDs), which are special purpose districts created specifically to acquire and improve public infrastructure in specified land areas. CFD bonds are repaid by ad valorem taxes levied directly by the districts and collected by the county. Property owners in the districts are assessed for district taxes and thus for all costs associated with the districts. The City has no liability for community facilities district bonds.

CFDs are created only by petition to the City Council by property owners within the district areas. As board of directors for the CFDs, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the unimproved district property to the proposed district debt, is a minimum of 3 to 1, and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the CFD and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's secondary assessed valuation.

### **CFD Advance Refundings**

There were no refundings during fiscal year 2004/05. In prior years, the McDowell Mountain Ranch CFD and the Scottsdale Mountain CFD refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of all of these trust accounts and the liability for refunded (defeased) bonds are not reflected in the financial statements of the City.

The table reflects refunded debt outstanding at June 30, 2005, and net of any amounts to be paid or retired by the trustee on July 1, 2005 (in thousands of dollars).

<b>Refunded in Prior Year (in thousands of dollars)</b>	
McDowell Mountain Ranch CFD:	
General Obligation Series 1997	\$ 6,910
Scottsdale Mountain CFD:	
General Obligation Series Series 1993B	45
Total CFD Bonds Refunded in Prior Years	<u>\$ 6,955</u>

Bonds payable at June 30, 2005, are comprised of the following:

**Classified in Governmental Activities on the Government-wide Financial Statements:**

	<b>Bonds Outstanding (in thousands of dollars)</b>
<b>General Obligation Bonds</b>	
1993 Refunding Bonds due in annual installments of \$1,010,000 to \$8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. \$28,399,993 of these bonds are recorded in and paid out of the Water Fund. On June 15, 2004, \$2,505,000 due 2007 through 2009 were defeased. The original issue amount for the 1993 Refunding Bonds was \$45,015,000.	\$ 10,540
1993A Refunding Bonds due in annual installments of \$475,000 to \$5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. \$1,315,000 of these bonds are recorded in and paid out of the Water Fund. On September 26, 2003, \$13,355,000 due 2004 and 2007 through 2011 were refunded. The original issue amount for the 1993A Refunding Bonds was \$24,265,000.	140
1989 Capital Improvement Project Serial Bonds (Series H issued January 1, 1997) due in annual installments of \$870,000 to \$2,115,000 through July 1, 2016; interest at 5.0 percent to 7.5 percent. On September 26, 2002, \$18,305,000 due 2006 through 2016 were refunded. Original issue amount, \$27,500,000.	-
1997 Refunding Bonds (issued September 3, 1997) due in annual installments of \$50,000 to \$3,510,000 through July 1, 2014, interest at 4.45 percent to 5.5 percent. Original issue amount \$19,900,000.	19,685
1989 Capital Improvement Project Serial Bonds (issued April 6, 1998) due in annual installments of \$445,000 to \$1,340,000 through July 1, 2018, interest at 4.3 percent to 6.5 percent. On September 26, 2002, \$8,180,000 due 2009 through 2015 were refunded. Original issue amount \$20,500,000.	7,235
1999A Transportation, Storm Sewer, Flood Protection and Pima Road Improvements Serial Bonds (issued June 29, 1999) due in annual installments of \$675,000 to \$1,900,000 through July 1, 2019; interest at 4.6 percent to 6.5 percent. On September 26, 2002, \$15,525,000 due 2010 through 2019 were refunded. Original issue amount \$25,200,000.	4,500
1999 Preservation Bonds (issued November 16, 1999) due in annual installments of \$800,000 to \$4,225,000 through July 1, 2024; interest at 7.5 percent to 5.0 percent. On July 18, 2001, \$32,375,000 due 2012 through 2022 were refunded, on September 26, 2002, an additional \$4,125,000 due 2010 and 2011 were refunded, and on March 29, 2005 an additional \$8,225,000 due 2023 and 2024 were refunded. Original issue amount \$59,600,000.	7,150
2001 Preservation Bonds (issued March 29, 2001) due in annual installments of \$920,000 to \$2,455,000 through July 1, 2024; interest at 4.0 percent to 6.0 percent. On September 26, 2002, \$3,920,000 due 2010 through 2012 were refunded, and on March 29, 2005 an additional \$22,680,000 due 2013 through 2024 were refunded. Original issue amount \$35,000,000.	4,520

2001 Refunding Bonds (issued July 18, 2001) due in annual installments of \$70,000 to \$5,030,000 through July 1, 2022; interest at 3.875 percent to 5.375 percent. On April 15, 2004, \$5,490,000 due 2010 and 2014 through 2018 were defeased. Original issue amount

38,625

2002 Various Purpose Bonds (issued May 16, 2002) due in annual installments of \$1,740,000 to \$5,000,000 through July 1, 2024; interest at 4 percent to 5 percent. On June 15, 2004 due 2010 through 2011 were defeased, and on March 29, 2005 an additional \$42,665,000 due 2012 through 2019 and 2021 through 2024 were refunded. Original issue amount

16,610

2002 Refunding Bonds (issued September 26, 2002) due in annual installments of \$1,625,000 to \$8,795,000 through July 1, 2019; interest at 2 percent to 5 percent. On April 15, 2004, \$1,510,000 due 2010 were defeased. Original issue amount \$72,000,000.

61,660

2003 Refunding Bonds (issued September 24, 2003) due in annual installments of \$45,000 to \$5,515,000 through July 1, 2013; interest at 2 percent to 4.5 percent. Original issue amount \$16,265,000.

14,975

2004 Various Purpose Bonds (issued May 13, 2004) due in annual installments of \$1,600,000 to \$30,300,000 through July 1, 2025; interest at 3 percent to 5 percent. Original issue amount \$113,400,000.

111,800

2005 Refunding Bonds (issued March 29, 2005) due in annual installments of \$2,715,000 to \$11,075,000 through July 1, 2024; interest at 3.85 percent to 5 percent. Original issue amount \$74,630,000.

74,630

Total General Obligation Bonds Outstanding \$ 372,070

The 1999 and 2001 Preservation Bonds of \$18,400,000 and \$29,210,000, respectively, and portions of the 2001 Refunding Bonds, 2002 Various Purpose Bonds, 2002 Refunding Bonds, 2004 Various Purpose Bonds and 2005 Refunding Bonds of \$33,235,000, \$40,000,000, \$8,100,000, \$65,400,000 and \$66,090,000, respectively, are paid from the .2% Preservation Sales Tax.

#### **HURF Revenue Bonds**

1993 Highway User Revenue Refunding Serial Bonds due in annual installments of \$405,000 to \$2,990,000 through July 1, 2007; interest at 4.25 percent to 5.5 percent. Original issue amount, \$26,690,000.

\$ 5,815

**Municipal Property Corporation Bonds**

1993 Municipal Property Corporation Refunding Bonds due in annual installments of \$515,000 to \$4,170,000 through July 1, 2005; interest at 4.25 percent to 5.375 percent. Original issue amount, \$29,475,000.	\$ -
1998 Municipal Property Corporation Excise Tax Revenue Bonds (issued December 2, 1998) due in annual installments of \$3,500,000 to \$180,000 through July 1, 2008; interest at 4.0 percent. Original issue amount, \$9,150,000.	520
2004A Municipal Property Corporation Excise Tax Revenue Bonds (issued September 15, 2004) due in annual installments of \$920,000 to \$2,715,000 through July 1, 2034; interest at 3.25 percent to 5.25 percent. Original issue amount, \$40,760,000.	40,760
2005 Municipal Property Corporation Excise Tax Revenue Bonds (issued June 15, 2005) due in annual installments of \$35,026 to \$4,925,019 through July 1, 2021; interest at 3.22 percent to 5 percent. Original issue amount, \$19,945,322.	<u>19,973</u>
Total MPC Bonds Outstanding	<u>\$ 61,253</u>

**Scottsdale Preserve Authority Bonds**

1997 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of \$170,000 to \$1,475,000 beginning July 1, 1998, through July 1, 2022; interest at 7.75 percent to 5.625 percent. On July 18, 2001, \$16,690,000 due 2006 through 2022 were refunded. Original issue amount \$20,500,000.	\$ -
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds due in annual installments of \$1,015,000 to \$6,585,000 beginning July 1, 1999, through July 1, 2024; interest at 6.0 percent to 4.75 percent. On March 30, 2004, \$22,770,000 due 2009 through 2016 were refunded. Original issue amount \$77,000,000.	43,225
2001 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued July 18, 2001, due in annual installments of \$60,000 to \$1,465,000 beginning July 1, 2002, through July 1, 2022; interest at 4.375 percent to 5.25 percent. Original issue amount \$17,495,000.	17,235
2004 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued March 30, 2004, due in annual installments of \$75,000 to \$3,315,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount \$22,925,000.	<u>22,925</u>
Total Scottsdale Preserve Authority Bonds	<u>\$ 83,385</u>



**Special Assessment Bonds**

Special Assessment Bonds issued March 31, 1994, through December 20, 2001, maturing January 1, 2004, through January 1, 2013; due in annual installments of \$15,000 to \$1,575,000; interest at 4.5 percent to 5.7 percent. Total original issue amount, \$38,215,000. \$ 6,340

**Certificates of Participation**

2005 Certificates of Participation issued January 26, 2005, due in annual installments of \$223,832 to \$450,965 beginning January 1, 2006, through July 1, 2015. Original issue amount \$7,650,000. \$ 7,650

**Community Facilities Districts General Obligation Bonds**

1998 DC Ranch Community Facilities District General Obligation Bonds due in annual installments of \$155,000 to \$385,000 beginning July 15, 2005 through July 15, 2023; interest at 4.75% to 5.5%. Original issue amount \$4,750,000. \$ 4,595

1999 Via Linda Road Community Facilities District General Obligation Bonds due in annual installments of \$95,000 to \$255,000 beginning July 15, 2004 through July 15, 2023; interest at 5.0% to 5.75%. Original issue amount \$3,225,000. 3,030

1999 McDowell Mountain Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of \$320,000 to \$1,455,000 beginning July 15, 1999 through July 15, 2022; interest at 4.0% to 6.0%. Original issue amount \$20,245,000. 16,805

1999 DC Ranch Community Facilities District General Obligation Bonds (issued November 1, 1999) due in annual installments of \$85,000 to \$260,000 beginning July 15, 2005 through July 15, 2011. Interest at 5.45% to 6.50%. Original issue amount \$3,085,000. 3,000

2002 Scottsdale Mountain Community Facilities District General Obligation Refunding Bonds (issued May 15, 2002) due in annual installments of \$160,000 to \$455,000 beginning July 15, 2003 through July 15, 2018; interest at 3.0 percent to 4.7 percent. Original issue amount \$5,375,000. 4,600

2002 DC Ranch Community Facilities District General Obligation Bonds (issued December 17, 2002) due in annual installments of \$245,000 to \$1,395,000 beginning July 15, 2004 through July 15, 2027. Interest at 3% to 5%. Original issue amount \$12,165,000. 11,450

Total Community Facilities Districts General Obligation Bonds Outstanding \$ 43,480

Total Bonds Payable Recorded in Governmental Activities \$ 579,993

**Classified in Governmental Activities on the Government-wide Financial Statements:**

	<b>Bonds Outstanding (in thousands of dollars)</b>
<b>General Obligation Bonds</b>	
1993 Refunding Bonds due in annual installments of \$1,010,000 to \$8,150,000 through July 1, 2009; interest at 4.0 percent to 5.5 percent. \$28,399,993 of these bonds are recorded in and paid out of the Water Fund. The original issue amount for the 1993 Refunding Bonds was \$45,015,000.	\$ 5,200
1993A Refunding Bonds due in annual installments of \$475,000 to \$5,560,000 through July 1, 2011; interest at 3.65 percent to 5.1 percent. \$1,315,000 of these bonds are recorded in and paid out of the Water Fund. The original issue amount for the 1993A Refunding Bonds was \$24,265,000.	1,315
	<hr/>
Total General Obligation Bonds Outstanding	\$ 6,515
	<hr/>
<b>Water and Sewer Revenue Bonds</b>	
1996 Water and Sewer Revenue Refunding Serial Bonds (issued March 1, 1996) due in annual installments of \$325,000 to \$1,000,000 beginning July 1, 1997 through July 1, 2014; interest at 3.5 percent to 5.625 percent. Original issue amount, \$9,815,000.	\$ 5,600
1989 Water and Sewer Revenue Bonds (Series D issued November 1, 1997) due in annual installments of \$425,000 to \$1,375,000 through July 1, 2022; interest at 4.75 percent to 7.25 percent. On March 30, 2004, \$6,775,000 due 2009 through 2016 were refunded. Original issue amount \$20,000,000.	9,200
1989 Water and Sewer Revenue Bonds (Series E issued December 2, 1998) due in annual installments of \$1,015,000 to \$4,615,000 through July 1, 2023; interest at 4.5 percent to 7.0 percent. On March 30, 2004, \$9,210,000 due 2009 through 2013 were refunded. Original issue amount \$50,000,000.	32,135
2004 Water and Sewer Revenue Refunding Bonds (Series 2004 issued March 30, 2004) due in annual installments of \$80,000 to \$3,175,000 through July 1, 2016 ; interest at 2 percent to 5 percent. \$2,907,520 of these bonds are recorded in and paid out of the Water Enterprise Fund, and \$15,972,480 are recorded in and paid out of the Sewer Enterprise Fund. Original issue amount \$18,880,000.	18,800
	<hr/>
Total Water and Sewer Revenue Bonds Outstanding	\$ 65,735
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### **Municipal Property Corporation Bonds**

1995 Municipal Property Corporation Transfer Station Excise Tax Revenue Serial Bonds (issued November 1, 1995) due in annual installments of \$160,000 to \$330,000 through July 1, 2010; interest at 4.75 percent to 7.25 percent. These bonds are recorded in and paid out of the Solid Waste Enterprise Fund. Original issue amount, \$3,500,000. \$ 1,485

2001 Municipal Property Corporation Scottswater Excise Tax Revenue Serial Bonds (issued October 10, 2001) due in annual installments of \$1,160,000 to \$1,835,000 through July 1, 2008; interest at 3.5 percent to 5 percent. These bonds are recorded in and paid out of the Water Enterprise Fund. Original issue amount, \$10,500,000. 5,135

2004 Municipal Property Corporation Excise Tax Revenue Bonds (Series 2004 issued May 13, 2004) due in annual installments of \$2,190,000 to \$5,435,000 through July 1, 2024; interest at 3.25 percent to 5.25 percent. \$55,000,000 of these bonds are recorded in and paid out of the Water Enterprise Fund, and \$20,000,000 are recorded in and paid out of the Sewer Enterprise Fund. Original issue amount \$75,000,000. 72,810

Total Municipal Property Corporation Bonds Outstanding \$ 79,430

Total Bonds Payable Recorded in Business-type Activities \$ 151,680

Total Long-term Portion of Bonds Payable \$ 731,673

### **Statutory Debt Limitation**

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt issued for water, sewer, light, parks, and open space purposes may not exceed 20 percent of a city's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a city's net secondary assessed valuation. Accretion on capital appreciation bonds, which is included for GAAP purposes as outstanding debt, is excluded for this calculation. General obligation bonds of community facilities districts also are not subject to or included in this calculation. The following summarizes the City of Scottsdale, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2005 (in thousands of dollars):

<u>General Obligation Bonds Issued to Provide Water, Sewer, Light,</u>		<u>General Obligation Bonds Issued for All Other Purposes</u>	
20% Constitutional Limit	\$ 868,691	6% Constitutional Limit	\$ 260,607
Less General Obligation 20% Bonds Outstanding	<u>(313,786)</u>	Less General Obligation 6% Bonds Outstanding	<u>(64,799)</u>
Available 20% Limitation Borrowing Capacity	<u><u>\$ 554,905</u></u>	Available 6% Limitation Borrowing Capacity	<u><u>\$ 195,808</u></u>

### Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City used an independent consultant to evaluate the City's outstanding tax-exempt debt for arbitrage liability and determined that there is no arbitrage liability due as of June 30, 2005.

### Advance Refundings and Defeasances

During the year ended June 30, 2005, the City issued \$74,630,000 of General Obligation Refunding Bonds, Series 2005, (advance refunding) dated March 29, 2005, with an average interest rate of 3.88%, to refund \$73,570,000 of Series 1999, Series 2001 and 2002 General Obligation Bonds with an average interest rate of 4.839%. The City will reduce its total debt service payments over the next 19 years by approximately \$4,464,016, and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,204,338.

The proceeds from the issuance of the bonds were used to purchase U.S. government securities that were placed in an irrevocable trust with an escrow agent to provide debt service payments on the bonds being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the City's financial statements.

In prior years, the City refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded.

The assets, liabilities, and financial transactions of all of these trust accounts and the liability for refunded (defeased) bonds are not reflected in the financial statements of the City.

The tables below reflect refunded debt outstanding at June 30, 2005, and net of any amounts to be paid or retired by the trustee on July 1, 2005 (in thousands of dollars).

Refunded in Year Ended June 30, 2005 (in thousands of dollars)	
1999 Preservation GO Bonds	\$ 8,225
2001 Preservation GO Bonds	22,680
2002 GO Bonds	42,665
	<u>\$ 73,570</u>
Refunded in Prior Years (in thousands of dollars)	
1998 General Obligation Bonds	\$ 8,180
1999A General Obligation Bonds	15,525
1999 General Obligation Bonds	40,600
1999 Preservation General Obligation Bonds	4,125
2001 Preservation General Obligation Bonds	26,600
2002 General Obligation Bonds	42,665
1998 Scottsdale Preserve Authority Excise Tax Revenue Bonds	22,770
1997 Water and Sewer Revenue Bonds	6,775
1998 Water and Sewer Revenue Bonds	9,210
	<u>\$ 176,450</u>

### Contracts Payable

The City has entered into various purchase contracts related to economic development, acquisition of water system facilities, acquisition of recreational facilities and patents. The contract for the acquisition of water system facilities is payable only from the operating revenue of the water and sewer utility system. The following is a summary of debt service to maturity for all long-term contracts payable at June 30, 2005.

#### Classified in Governmental Activities on the Government-wide Financial Statements:

	Contracts Payable (in thousands of dollars)
Contract payable to the U.S. Army Corps of Engineers for the construction of flood control and recreation facilities; due in annual installments through 2032; interest at 5.1 percent.	\$ 3,176
Contract payable for the construction of public infrastructure relating to completion of The Dial Corporation new corporate headquarters; due in annual installments beginning September 1998 through September 2007; non-interest bearing.	193
Contract payable for the maintenance of a federal patent; due in three year installments beginning January 1, 2001 through January 1, 2009; non-interest bearing.	3
Contract payable for the oversight and management of the Tournament Players Club Recreational Land Use Agreement; due in annual installments beginning March 1999 through June 2035; non-interest bearing.	1,650
Contract payable for the oversight and management of the Westworld Cost-share and Land Use Agreement; due in annual installments beginning December 2000 through December 2032; non-interest bearing.	1,540
Contract payables for the undergrounding of 69kv power lines; due in annual installments beginning January 1999 through January 2010; interest at 10.0 percent.	67
Contract payable for the purchase of a portion of 2,685 acres of land for the McDowell Sonoran Preserve; due in fifteen annual installments beginning July 1, 1999 through July 1, 2013; interest from 3.75 percent to 6.0 percent.	6,195
Contract payable for marketing of car dealerships located in southern Scottsdale; due in annual installments beginning January 2006; non-interest bearing.	1,500
Total Contracts Payable Recorded in Governmental Activities	<u>\$ 14,324</u>

### Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2005 (in thousands of dollars).

	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General Obligation Bonds	\$ 389,598	\$ 74,867	\$ (92,395)	\$ 372,070	\$ 17,705
HURF Revenue Bonds	8,475	-	(2,660)	5,815	2,825
Municipal Property Corporation Bonds	4,850	60,733	(4,330)	61,253	170
Scottsdale Preserve Authority Bonds	85,980	-	(2,595)	83,385	2,815
Special Assessments Bonds	8,755	-	(2,415)	6,340	835
Certificates of Participation	-	7,650	-	7,650	560
Community Facilities Districts General Obligation Bonds	44,950	-	(1,470)	43,480	1,535
Add Deferred Issuance Premiums	8,741	4,536	(1,409)	11,868	-
Less Deferred Amounts on Refunding	(9,153)	(4,014)	1,474	(11,693)	-
Total Bonds Payable	542,196	143,772	(105,800)	580,168	26,445
Contracts Payable	13,702	1,500	(878)	14,324	1,185
Compensated Absences	13,038	8,296	(7,434)	13,900	5,795
Governmental Activity Long-term Liabilities	<u>\$ 568,936</u>	<u>\$ 153,568</u>	<u>\$ (114,112)</u>	<u>\$ 608,392</u>	<u>\$ 33,425</u>

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities. For the year ended June 30, 2005, \$396,455 of accrued compensated absences is included in the above amount. For the governmental activities, the General Fund, Special Revenue Funds and Capital Projects Funds generally liquidate accrued compensated absences. The compensated absences presented in this note are net of the current liability of \$2,066,131 in the governmental funds, \$60,000 in the Internal Service funds and \$275,872 in the Enterprise funds.

	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
<b>Business-type Activities:</b>					
Bonds Payable:					
General Obligation Bonds	\$ 10,651	\$ 439	\$ (4,575)	\$ 6,515	\$ 6,515
Water and Sewer Revenue Bonds	68,365	-	(2,630)	65,735	3,330
Municipal Property Corporation Bonds	83,365	-	(3,935)	79,430	5,825
Add Deferred Issuance Premiums	6,617	-	(558)	6,059	-
Less Deferred Amounts on Refunding	(1,819)	-	289	(1,530)	-
Total Bonds Payable	167,179	439	(11,409)	156,209	15,670
Compensated Absences	1,531	1,011	(571)	1,971	679
Business-type Activity Long-term Liabilities	<u>\$ 168,710</u>	<u>\$ 1,450</u>	<u>\$ (11,980)</u>	<u>\$ 158,180</u>	<u>\$ 16,349</u>



### Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2005. Deferred issuance costs and deferred amounts on refunding are not included.

Governmental Activities (in thousands of dollars)									
Fiscal Year	General Obligation Bonds Issued To Provide Water, Sewer, Light Parks, and Open Spaces 20% Limitation			General Obligation Bonds Issued For All Other Purposes 6% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 7,226	\$ 14,439	\$ 21,665	\$ 10,479	\$ 2,951	\$ 13,430	\$ 17,705	\$ 17,390	\$ 35,095
2007	8,315	14,065	22,380	11,575	2,444	14,019	19,890	16,509	36,399
2008	7,790	13,634	21,424	10,165	1,931	12,096	17,955	15,565	33,520
2009	10,595	13,237	23,832	8,220	1,492	9,712	18,815	14,729	33,544
2010	12,575	12,753	25,328	6,865	1,095	7,960	19,440	13,848	33,288
2011-2015	88,575	51,060	139,635	9,970	3,474	13,444	98,545	54,534	153,079
2016-2020	80,285	31,964	112,249	7,525	351	7,876	87,810	32,315	120,125
2021-2025	91,910	14,008	105,918	-	-	-	91,910	14,008	105,918
Total	\$ 307,271	\$ 165,160	\$ 472,431	\$ 64,799	\$ 13,738	\$ 78,537	\$ 372,070	\$ 178,898	\$ 550,968

Fiscal Year	Highway User Revenue Bonds			Municipal Property Corporation Bonds			Scottsdale Preserve Authority Excise Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 2,825	\$ 316	\$ 3,141	\$ 170	\$ 2,215	\$ 2,385	\$ 2,815	\$ 3,990	\$ 6,805
2007	2,990	165	3,155	170	2,197	2,367	2,965	3,836	6,801
2008	-	-	-	384	2,211	2,595	3,110	3,672	6,782
2009	-	-	-	35	2,188	2,223	3,260	3,500	6,760
2010	-	-	-	1,223	2,240	3,463	3,365	3,367	6,732
2011-2015	-	-	-	7,214	12,248	19,462	19,015	14,373	33,388
2016-2020	-	-	-	22,371	16,847	39,218	24,400	9,166	33,566
2021-2025	-	-	-	9,333	6,828	16,161	24,455	2,828	27,283
2026-2030	-	-	-	10,220	4,025	14,245	-	-	-
2031-2035	-	-	-	10,105	1,294	11,399	-	-	-
Capital									
Appreciation **				28	(28)	-	-	-	-
Total	\$ 5,815	\$ 481	\$ 6,296	\$ 61,253	\$ 52,265	\$ 113,518	\$ 83,385	\$ 44,732	\$ 128,117

\*\* For GAAP financial statement reporting, accretion of capital appreciation bonds is added to the principal balance outstanding.

Fiscal Year	Special Assessment Bonds			Certificates of Participation			Community Facilities Districts General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 835	\$ 267	\$ 1,102	\$ 560	\$ 357	\$ 917	\$ 1,535	\$ 2,121	\$ 3,656
2007	835	229	1,064	689	228	917	1,615	2,045	3,660
2008	835	191	1,026	712	205	917	1,685	1,978	3,663
2009	835	154	989	735	182	917	1,760	1,907	3,667
2010	750	118	868	760	157	917	1,870	1,830	3,700
2011-2015	2,250	152	2,402	4,194	389	4,583	10,730	7,785	18,515
2016-2020	-	-	-	-	-	-	12,295	4,974	17,269
2021-2025	-	-	-	-	-	-	9,265	1,905	11,170
2026-2030	-	-	-	-	-	-	2,725	206	2,931
Total	\$ 6,340	\$ 1,111	\$ 7,451	\$ 7,650	\$ 1,518	\$ 9,168	\$ 43,480	\$ 24,751	\$ 68,231

(continued)

**Governmental Activities (concluded)**  
(in thousands of dollars)

Fiscal Year	Contracts Payable			Total		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,185	\$ 464	\$ 1,649	\$ 27,630	\$ 27,120	\$ 54,750
2007	1,218	430	1,648	30,372	25,639	56,011
2008	1,257	393	1,650	25,938	24,215	50,153
2009	1,339	355	1,694	26,779	23,015	49,794
2010	1,290	314	1,604	28,698	21,874	50,572
2011-2015	3,638	931	4,569	145,586	90,412	235,998
2016-2020	1,177	529	1,706	148,053	63,831	211,884
2021-2025	1,354	352	1,706	136,317	25,921	162,238
2026-2030	1,373	127	1,500	14,318	4,358	18,676
2031-2035	493	3	496	10,598	1,297	11,895
Capital Appreciation	-	-	-	28	(28)	-
Total	\$ 14,324	\$ 3,898	\$ 18,222	\$ 594,317	\$ 307,654	\$ 901,971

**Business-type Activities**  
(in thousands of dollars)

**General Obligation Bonds Issued  
To Provide Water, Sewer, Light  
Parks, and Open Spaces  
20% Limitation**

**Total General  
Obligation Bonds**

Fiscal Year						
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 6,515	\$ 340	\$ 6,855	\$ 6,515	\$ 340	\$ 6,855
Total	\$ 6,515	\$ 340	\$ 6,855	\$ 6,515	\$ 340	\$ 6,855

**Business-type Activities**  
(in thousands of dollars)

**Water and Sewer  
Revenue Bonds**

**Municipal Property  
Corporation Bonds**

**Total**

Fiscal Year									
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 3,330	\$ 3,182	\$ 6,512	\$ 5,825	\$ 3,893	\$ 9,718	\$ 15,670	\$ 7,415	\$ 23,085
2007	3,475	2,997	6,472	4,535	3,699	8,234	8,010	6,696	14,706
2008	3,635	2,801	6,436	4,735	3,472	8,207	8,370	6,273	14,643
2009	3,785	2,598	6,383	2,980	3,254	6,234	6,765	5,852	12,617
2010	3,260	2,420	5,680	3,080	3,105	6,185	6,340	5,525	11,865
2011-2015	16,835	9,613	26,448	17,120	13,105	30,225	33,955	22,718	56,673
2016-2020	18,215	5,660	23,875	20,840	8,479	29,319	39,055	14,139	53,194
2021-2025	13,200	1,227	14,427	20,315	2,673	22,988	33,515	3,900	37,415
Total	\$ 65,735	\$ 30,498	\$ 96,233	\$ 79,430	\$ 41,680	\$ 121,110	\$ 151,680	\$ 72,518	\$ 224,198

## V. OTHER INFORMATION

### A. Risk Management

The City is exposed to various risks of loss related to public, property, and aviation premises liability, self-insured benefits and workers compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City is self-insured for the first \$2,000,000 of public liability, the first \$100,000 of property coverage, the first \$300,000 of health benefits claims and the first \$600,000 of workers compensation. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance. During the fiscal year ending June 30, 2005, the global property-casualty insurance marketplace eased slightly from the September 11<sup>th</sup> terrorist attack downturn allowing the City to purchase an additional \$10 million of liability insurance raising the total to \$50 million. As for claim expenditures, settlements for each of the past five fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

The City reports its self-insurance activity in its Self-Insurance Internal Service Fund. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The claims liabilities amount recorded in the accompanying financial statements is based on reported pending claims; and an actuarial analysis and projection of the accrued liability amounts necessary to fund the claims. At June 30, 2005, the general liability claims payable totaled \$10,440,416 and the self-insured benefits claims payable totaled \$5,125,000. The City began to administer all self-insured health and dental plans in January of 2004.

	Years Ended June 30	
	2005	2004
(in thousands of dollars)		
Claims Payable, July 1	\$ 14,678	\$ 8,839
Current Year Claims Incurred	18,016	14,980
Current Year Claim Payments	(17,129)	(9,141)
Claims Payable, June 30	<u>\$ 15,565</u>	<u>\$ 14,678</u>

In addition, the actuarial assumption includes a recommendation that the City retain a cash balance equal to the estimated full and present value of general risk claims and a corridor and premium stabilization reserve for the self-insured health benefits. At June 30, 2005, the recommended present value, assuming a 3.0% interest rate is, \$9,511,976 for all lines of pending claims and the claims incurred, corridor reserve and premium stabilization reserve total \$2,012,000 for self-insured benefits.

### B. Contingent Liabilities

The City is a party to several lawsuits incidental to its normal operations. Management, with concurrence of the City Attorney, and outside legal counsel, is of the opinion that settlement of these lawsuits will not have a material effect on the financial position of the City. Therefore, no specific provision has been reflected in the accompanying basic financial statements for these matters.

### C. Commitments and Subsequent Events

On November 19, 2002, the City Council approved a development agreement with John Lund relating to a new automotive complex at the southeast corner of Scottsdale Road and Loop 101 Freeway. The terms of this agreement require the City to reimburse Lund for up to \$5.5 million in public benefits relating to the project including the acquisition of public lands, reimbursement of the City's water and sewer development fees, and reimbursement of the City's stormwater retention payment in lieu. The actual amount will be dependent upon actual costs. However, the reimbursement amount may not exceed \$5.5 million even if actual costs are higher. The City has also agreed to pay interest costs on Lund's cost of borrowing on the unpaid balance beginning at 8.5% in the first year and dropping by .5% per year. The reimbursement of the costs listed above, will be accomplished by paying Lund quarterly payments equal to 67% of the City's General Fund sales tax receipts received from the new dealership in that quarter, for a maximum of 10

years. The first payment is not due until the calendar quarter after the calendar quarter in which the first certificate of occupancy is issued.

In November 2003, Rural/Metro Corporation, the City's provider of Fire protection and related services, informed the City that it would not extend its contractual relationship further than June 2005. The City formed a municipal fire department that began operations on July 1, 2005.

The City has a Service Agreement with the Scottsdale Cultural Council (Council) that provides that the Council will manage the arts and cultural affairs within the Scottsdale community for a ten-year period, automatically renewable for two five-year periods. In return, the City will pay service fees to the Council based on the Service Agreement between the City and the Council. Payments to Scottsdale Cultural Council amounted to \$2,864,014 for the year ended June 30, 2005. Annual amounts due in fiscal year 2005/06 will approximate \$3,036,934.

The City has a Service Agreement with the Scottsdale Convention and Visitors' Bureau (SCVB) that provides that SCVB will manage the tourism promotion within the Scottsdale community for a ten-year period. In return, the City will pay service fees to SCVB based on the Service Agreement with the City. Payments to SCVB amounted to \$5,309,145 for the year ended June 30, 2005. The annual amount due in fiscal year 2005/06 will be \$5,659,274.

The City has entered into several agreements whereby it will reimburse developers for construction costs of certain public infrastructure improvements. The funding source for the reimbursements will come from Water and Sewer development fees paid over the life of the development. Only amounts paid subsequent to January 13, 1997 are eligible for reimbursement. The City does not become liable under the agreements until the City has accepted the cost, a development fee has been paid and a water meter has been set. The City has limited its liability to the lesser of the cost accepted by the City or the development fees paid. The City's maximum contingent liability at June 30, 2005, is \$8,943,339.

The City has entered into several agreements whereby it will reimburse developers a portion of the sales tax collected on their site for a time period up to a maximum dollar amount. The funding source for the reimbursements will come from sales tax collected on the site over the life of the agreement. The City does not become liable under the agreements until the developer has collected and remitted the tax to the City. The City's maximum contingent liability at June 30, 2005, is \$8,773,647.

#### **D. Joint Venture**

The City participates with the cities of Phoenix, Glendale, Mesa, and Tempe in the multi-city Sub-Regional Operating Group (SROG). SROG was formed pursuant to the Joint Exercise of Powers Agreement (JEPA) in order to govern the construction, operation, and maintenance of jointly used sewage treatment and transportation facilities. The facilities include the 91st Avenue Wastewater Treatment Plant, the Salt River Outfall Sewer, the Southern Avenue Interceptor, and related transportation facilities. The City of Phoenix acts as lead agency and is responsible for the planning, budgeting, construction, operation, and maintenance of the facilities. In addition, the City of Phoenix provides all management, personnel, and financing arrangements and accepts federal grants on behalf of the participants. The JEPA requires each city to pay for its share of the actual cash costs of operating and maintaining the facilities based on relative sewage flows and strengths.

The City records its share of SROG's cash operating expenses, and its equity in the joint venture in the City's Water and Sewer Utility Fund. For the year ended June 30, 2004, (the latest audited information available from SROG), the City's net investment in SROG was \$62,998,000. SROG's net cash operating expenses for the year ended June 30, 2004, were \$27,507,218, of which the City's share was \$3,750,024, or 13.6 percent. For the year ended June 30, 2005, the City paid \$16,242,132 for SROG capital contributions, and \$5,957,712 for SROG operating expenses, including adjustments to the operating and replacement reserves.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 for the multi-city Sub-Regional Operating Group (the latest SROG CAFR available) may be obtained from the Arizona Municipal Water Users Association, 4041 N. Central Avenue, Suite 900, Phoenix, AZ 85012.

#### **E. Related Organization**

The Industrial Development Authority (Authority) is a nonprofit corporation established by the City in 1984 to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate and remain in Scottsdale. The Board of Directors of the Authority is appointed by the City Council; however, the City's accountability for the authority does not extend beyond making the appointments.

## **F. Retirement and Pension Plans**

All full-time employees of the City, the Mayor, and City Council are covered by one of three pension plans. All full-time City employees, except public safety personnel, participate in the Arizona State Retirement System, a multiple-employer cost sharing pension plan. All public safety personnel participate in the Public Safety Personnel Retirement System, which is an agent multiple-employer pension plan. The Mayor and Council participate in the Elected Officials' Retirement Plan, a multiple-employer cost sharing pension plan. All three pension plans are administered by the State of Arizona.

### **Arizona State Retirement System**

#### **Plan Description**

All full-time City employees, except public safety personnel, participate in the Arizona State Retirement System (System), a multiple-employer cost sharing defined benefit pension plan. The System was established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5, of the Arizona Revised Statutes. The System provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. The Arizona State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arizona State Retirement System, P. O. Box 33910, Phoenix, AZ 85067-3910, or by calling 1-800-621-3778.

#### **Funding Policy**

The Arizona Revised Statutes (ARS) provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to legislate a contribution rate other than the actuarially determined rate. The actuarially determined contribution rate for the years ended June 30, 2005, 2004, and 2003, were 5.70% (5.20% retirement and .50% long-term disability) 5.70% and 2.49%, respectively, for both employers and employees. The City's contributions to the System for the years ending June 30, 2005, 2004, and 2003 were \$4,944,354, \$4,680,164, and \$2,034,363, respectively, equal to the required contributions for each year.

## **Public Safety Personnel Retirement System**

#### **Plan Description**

All of the City's public safety personnel (police officers and firefighters) participate in the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan. PSPRS was established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes to provide pension benefits for public safety employees of certain state and local governments. The PSPRS is jointly administered by the fund manager and 171 local boards. PSPRS provides retirement benefits, as well as death and disability benefits. The Public Safety Personnel Retirement System of the State of Arizona issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Safety Personnel Retirement System, 1020 East Missouri Avenue, Phoenix, AZ 85014 or by calling (602) 255-5575.

#### **Funding Policy**

The System for both police and fire is funded through a member contribution of 7.65% of gross payroll, an employer contribution set by an actuarial valuation expressed as a percent of gross payroll, and a distribution of the net earnings of the Fund. The City's current contribution rate for police is 8.96% of annual covered payroll, consisting of 10.65% for normal cost and (1.69%) for amortization of unfunded actuarial accrued liability. Contribution rates for police were 7.77% and 5.37% in 2004 and 2003, respectively. The City's current contribution rate for fire is 11.03% of annual covered payroll, which covers all normal costs. The City had no contribution rates for fire in 2004 or 2003 because they contracted this service out to a third party vendor.

#### **Annual Pension Cost**

For 2005, the City's annual pension costs of \$2,101,804 for police and \$38,595 for fire were equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the individual entry-age actuarial cost method.

The actuarial assumptions for both police and fire include (a) a rate of return on the investment of present and future assets of 8.75% per year compounded annually, (b) projected salary increases of 6.25% per year compounded annually, attributable to inflation and other across-the-board factors, and (c) additional projected salary increases ranging from 6.25% to 9.25% per year, attributable to seniority/merit. Included in (b) is an inflation component of 5.25%. The actuarial value of PSPRS assets was determined using techniques that



smooth the market value of assets over a 4-year period. PSPRS' unfunded accrued liability is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period at July 1, 2005 was 20 years.

**Three-Year Trend Information for PSPRS (Police)**  
(in thousands of dollars)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	1,159	100%	-
2004	1,794	100%	-
2005	2,102	100%	-

Because the department was formed during fiscal year 2005, actuarial information on the fire department is not available.

**Elected Officials' Retirement Plan**

**Plan Description**

The City's Mayor and Council participate in the Elected Officials' Retirement Plan (EORP), a multiple-employer cost sharing defined benefit pension plan. The EORP was established and is administered by the State of Arizona to provide pension benefits for state and county elected officials, judges, and certain City-elected officials. The fund manager of the PSPRS is also the administrator for the EORP. EORP provides retirement benefits, as well as death and disability benefits. The Elected Officials' Retirement Plan issues a publicly available financial report that includes financial statements and required supplementary information for EORP. That report may be obtained by writing to Elected Officials' Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling (602) 255-5575.

**Funding Policy**

Covered employees are required by state statute to contribute an amount equal to 7.00% of gross salary. Incorporated city or town employers are required to contribute an amount sufficient to meet both the normal cost of a level-cost method attributable to the EORP, plus the amount required to amortize the unfunded accrued liability for the employer. Such amount is to be determined each year by actuarial valuation and paid as a level percent of compensation. The contribution requirements for plan members are established and may be amended by the Fund Manager, a five-member board. The City's rates for fiscal years ended June 30, 2005, 2004, and 2003, were 13.49%, 13.49%, and 6.97%, respectively. The City's contributions to EORP for the years ending June 30, 2005, 2004, and 2003 were \$19,425, \$19,658, and \$10,036, respectively, equal to the required contributions for each year.

**G. Other Post-Employment Benefits**

In addition to the pension benefits described in H (above) the City provides an option of post-retirement health care benefits, in accordance with Chapter 14 of the City Code. At retirement, employees with medical leave accumulated prior to September 6, 1976 are eligible for payment of medical leave at one hundred percent cash value at current rate of pay. Employees hired before July 1, 1982 can elect to receive cash equal to fifty percent of the first five hundred twenty hours of unused medical leave plus twenty-five percent of all hours in excess of five hundred twenty. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. Any retiring employee with 300 or more hours of accumulated medical leave, who chooses to remain on the city medical plan, may elect to apply the value of the sick leave to the employee's portion of the health care premiums, up until age 65. The value of the accumulated medical leave is calculated at the employee's hourly rate of pay at the time of retirement.

Twenty-two participants were added during fiscal year 2004/05 increasing the total number of participants to 111 at fiscal year-end. The projected liability, as of June 30, 2005, for medical conversion was \$7,557,000. Of this liability, \$6,884,000 is considered payable in greater than one year and is not reflected as a current expenditure in the governmental fund statements. The projected liability is based on a January 1, 2005, actuarial valuation, as

adjusted, based on the actuarial projection that for every additional 100 participants, future normal costs increase by an additional 3% per annum. Significant actuarial assumptions of the January 1, 2005 actuarial valuation include a) mortality rates based on the 1983 Group Annuity Mortality Table set back 1 year for males and no set back for females, b) interest compounded 3.0 percent annually, c) salaries increase at a rate of 4.5% to 6.9% based on years of service per annum, d) projected unit credit cost method based on participant data as of January 1, 2005.

**Required Supplementary Information**

**Public Safety Personnel Retirement System  
(Police)  
Schedule of Funding Progress**

(in thousands of dollars)

Actuarial Valuation June 30	(1) Actuarial Value of Assets	(2) Entry Age Actuarial Accrued Liability (AAL)	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
1999	72,177	57,828	124.8%	(14,349)	16,187	-
2000	84,435	65,021	129.9%	(19,414)	18,547	-
2001	93,684	73,216	128.0%	(20,468)	20,406	-
2002	94,784	80,997	117.0%	(13,787)	20,930	-
2003	98,287	91,841	107.0%	(6,446)	21,996	-
2004	99,394	103,136	96.4%	3,742	22,647	16.5%